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Trade Policy Monitoring

Portugal's Biofuels Policy

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Report Highlights:

The Government of Portugal (GOP) has now drafted and implemented biofuels legislation, and the Portuguese refining industry is now investing, setting the stage for a substantial increase in biofuels production capacity within Portugal. The GOP forecasts that by 2010, biofuels production capacity will be at about 600,000 tons, up considerably from 2006 production of about 60,000.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Madrid [SP1]
[PO]

Current State of Play

Legislative:

With Directive 2003/30/CE the European Commission (EC) set a non-binding use standard of biofuels within European Union (EU) Member States (MS) at two percent of all transport fuels by the end of 2005, and 5.75 percent by 2010 (the time frame for the analysis in this report). Biofuel production by MSs was not defined, so that production could occur where it was most economically feasible under the current legislative framework. The directive also called for an accounting at the end of 2006, with the possibility of requiring an MSs, where sufficient progress has not been achieved, to enact legislation to correct the lack of progress.

The Government of Portugal (GOP) outlined its national strategy to comply with this directive, releasing an impact assessment report "Biofuels: Which Strategy for Portugal?" in 2004. It outlined various potential options that the GOP could undertake including reducing petroleum taxes on the biofuels, mandating compulsory blends of biofuels, or establishing voluntary agreements with producers and informing customers.

For its biofuels promotion strategy, Portugal chose to reduce petroleum taxes on the production of biofuels. First, with the passage of Decree 62/2006, the GOP formally adopted the 2003 EC biofuels directive, agreeing that a MS should promote biofuels production and use. Secondly, Portugal passed Decree 66/2006, which established tax benefits for the producers of biofuels in Portugal. This law reduced or exempted petroleum taxes on biofuels to approved producers by 280-300 Euros per 1000 liters for fuel destined for the commercial market.¹ This law also set Portugal's formal consumption targets that correspond with the exemptions.

Consumption Targets (percentage)					
Year	2006	2007	2008	2009	2010
Diesel	2	3	5.75	5.75	5.75
Petrol	2	3	5.75	5.75	5.75

Source: PLMJ.com Tax Bolletim

With the recent passage of Decree 1391-A/2006, the GOP set the maximum ceiling on which the tax exemption can apply at 100,000 tons per producer. Each producer will be allocated a quota for the tax-exempt production based upon factors such as the source of the raw materials and location of the production.

Production:

Based on the apparent economic value of the tax incentives thus far provided by the GOP, the Portuguese Ministry of Engineering, Technology, and Innovation (INETI) estimates that Portuguese biofuels production capacity will be near 600,000 tons by 2010. According to GOP estimates, Portugal produced about 60,000 tons of biodiesel in 2006 up from 2005 production levels of about 160 tons.

The construction of the first large scale industrial biodiesel plant, with a 100,000 ton biodiesel production capacity began in late 2004. Plant construction financing was provided by the Portuguese petroleum company Iberol, with the GOP providing funding for 50 percent of this project. In March 2005, state-owned energy group Galp Energia agreed to purchase

¹For small producers (<3000 tons a year) it waived all petroleum taxes. This exemption would apply to at most 15,000 tons of biofuels production by small producers.

all of Iberol's biodiesel production. This project was completed in late 2005, and began production in 2006. Another plant, the Torrejana de Biocombustíveis plant in Torres Novas, also came on line in 2006, with a production capacity of 40,000 tons. Galp Energia agreed to purchase all of its output as well. Prior to 2006, Portuguese production of biodiesel depended primarily on the recycling of used oils.

According to recent reports, the biofuels market may attract 330 million euros in investments in seven biodiesel plants, two bioethanol plants, and two refineries in the next three years. By 2010, biofuels production capacity in Portugal is expected to be about 600,000 tons.

Biofuels Plants planned for 2007-2010 in Portugal (+50 tmt)

Plant Name	District	Output	Capacity (tmt)
Biovegetal	Portalegre	Biodiesel	100
Tagol (Nutrinveste)	Setubal	Biodiesel	100
Prio Biofuels (Martifer)	Aveiro	Biodiesel	100
Fomentinveste	Setubal	Ethanol	100
Nelson Quintas	Porto	Biodiesel	60
Valouro	?	Biodiesel	50
Source: Recent Press			

Use:

That the Portuguese will use the biodiesel and ethanol scheduled for production in Portugal is still an open question. It appears that the tax incentives are sufficient to spur production investment, but will there be sufficient economic margin left to encourage vehicle owners to buy the mixtures?

It could well be that the GOP will have to revisit the use side of this equation. Spain is currently considering a mandatory mixing regulation to achieve the EC-derived use targets (Please see SP6033). It is possible that through the State-owned oil companies, distribution will not become a problem. We will continue to monitor the GOP success on the distribution side of the equation. For reference, to have met the EC's goal of 2 percent use in 2005 and to meet the 5.75 percent use target by 2010, Portugal would have needed to have used approximately 110,000 tons of biofuels by 2005 (160 actual), and will need to use about 315,000 tons by 2010.

GOP and Industry Concerns:

Some analysts argue that without ambitious mandatory consumption levels, biofuels production in Portugal may operate at less than optimal production capacity. In addition, a decline in the price of crude oil could precipitate financial difficulties for biofuels producers. Also, sourcing raw materials for biofuels production is a question mark. Portuguese farmers will not likely be able to meet the demand for biofuels production raw materials, so imports will likely be needed. The availability and pricing of the raw materials will likely play a crucial role in the overall success of the GOP plan.